**Statement of**

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**House Committee on the Judiciary**
**Subcommittee on Courts, the Internet, and Intellectual Property**

**Hearing on**

***Holmes Group*, the Federal Circuit, and the State of Patent Appeals**

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## Executive Summary

1. ***Holmes Group* in context**. In *Holmes Group* (2002), the Supreme Court held that the appellate jurisdiction of the Court of Appeals for the Federal Circuit does not encompass cases in which claims under the patent laws are raised in a responsive pleading rather than in the plaintiff's complaint. The effect of the decision is also to allow state courts to hear claims under the copyright and patent laws. Both results have been widely criticized as a matter of policy.

2. **Allocation of jurisdiction between state and federal courts**. Patent and copyright claims should not be litigated in state courts. The simplest way to assure that they will not be is to recast the second sentence of 28 USC § 1338(a) to directly exclude state-court jurisdiction. The sentence would read: "No state court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights."

If Congress were to enact this revision alone, a patent or copyright counterclaim brought in state court would have to be dismissed, and the defendant would have to file a new suit in federal court. The parties would thus have to litigate two parallel suits even if the claims were closely related or even interdependent. To avoid this, Congress could enact a statute authorizing removal on the basis of a patent or copyright counterclaim.

An Ad Hoc Committee of the Federal Circuit Bar Association has proposed an alternate approach that would overturn *Holmes Group* by amending the first sentence of 28 USC § 1338(a). However, any alteration in the statutory language that defines the "original jurisdiction" of the district court – language that has remained unchanged for more than half a century – runs the risk of unsettling the law in ways that no one can fully anticipate. Congress should not take that step if its purposes can be accomplished through legislation that is less likely to have ramifications outside the immediate context.

3. **Patent counterclaims and appellate review**. The Federal Circuit should have appellate jurisdiction over all cases in which "a claim for relief arising under the patent laws" is raised in a responsive pleading (such as a counterclaim) but not in the complaint. This policy goal can be pursued directly by amending 28 USC § 1295(a) so that it would give the Federal Circuit exclusive appellate jurisdiction "of an appeal from a final decision of a district court of the United States [or other district courts] in any civil action in which a party has asserted a claim for relief arising under any Act of Congress relating to patents or plant variety protection."

4. **The state of patent appeals**. In its early years, the Federal Circuit followed the law of the appropriate regional circuit "in all but the substantive law fields assigned exclusively to [the new] court." That is no longer the court's position. Some commentators have criticized the court for "overreaching its

statutory mandate on choice of law questions." There are also grounds for concern about a loss of "percolation" on the non-patent issues that typically arise in cases with patent claims. To counter this, Congress might consider an amendment to Title 28 that would authorize the Federal Circuit to transfer appeals to the appropriate regional court of appeals if the gravamen of the appeal plainly is not patent law.

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Mr. Chairman, Ranking Member Berman, and Members of the Subcommittee:

Thank you for inviting me to express my views at this important oversight hearing on "*Holmes Group*, the Federal Circuit, and the State of Patent Appeals." The issues before the Subcommittee today may appear narrow and technical. In fact, they implicate some of the deepest conflicts in the American legal system: federal supremacy versus state autonomy; specialist versus generalist courts; protection of invention versus encouragement of competition.

The immediate question is whether Congress should enact legislation to overturn the Supreme Court's decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002). The Court held in *Holmes Group* that the appellate jurisdiction of the Court of Appeals for the Federal Circuit does not encompass cases in which claims under the patent laws are raised in a responsive pleading rather than in the plaintiff's complaint. An Ad Hoc Committee of the Federal Circuit Bar Association has proposed an amendment to 28 USC § 1338 that would "ensure exclusive jurisdiction for the Federal Circuit over *all* patent appeals."[1] The proposed amendment is also aimed at assuring that the federal district courts would exercise exclusive jurisdiction over all patent and copyright claims.

I agree with the policy goals of the Ad Hoc Committee, and initially I expected to support the Committee's legislative proposal as well. However, upon further analysis and reflection, I believe that this particular approach raises some

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[1] Report of the Ad Hoc Committee to Study Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 12 Fed. Cir. B.J. 713, 714 (2002) [hereinafter Ad Hoc Committee Report].

serious concerns. There are better ways of accomplishing the Committee's purposes.[2]

The simplest way of excluding state-court jurisdiction over patent and copyright counterclaims is to do so directly by recasting the second sentence of 28 USC § 1338. I also suggest amending Title 28 to allow removal of state-court cases in which a claim under the patent or copyright laws is asserted in a responsive pleading. Finally, I suggest amending 28 USC § 1295 to give the Federal Circuit exclusive jurisdiction over appeals from final decisions of the district courts "in any civil action in which a party has asserted a claim for relief arising under any Act of Congress relating to patents or plant variety protection."[3]

At an oversight hearing, it is appropriate to look to the long term. From that perspective, I believe that Congress should consider an amendment to Title 28 that would authorize the Federal Circuit to transfer appeals to the appropriate regional court of appeals if the gravamen of the appeal plainly is not patent law.

Before turning to the issues raised by *Holmes Group* and the Ad Hoc Committee proposal, I will say a few words by way of personal background. I am a professor of law at the University of Pittsburgh School of Law, where I was recently appointed as the inaugural holder of the Sally Ann Semenko Endowed Chair. I have been studying the operation of the federal appellate courts for more than 30 years, starting in the mid-1970s, when I served as Deputy Executive Director of the Commission on Revision of the Federal Court Appellate System

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[2] Although I disagree with the Ad Hoc Committee's ultimate recommendation, I have benefited greatly from the Committee's thoughtful and lucid analysis, and in this statement I have drawn heavily on the Committee report.

[3] This suggestion is very similar to a proposal that the Ad Hoc Committee considered and rejected. For reasons explained in Part III, I do not think the Committee's concerns should carry the day.

(Hruska Commission). Although the Hruska Commission did not ultimately endorse the idea of centralizing patent appeals in a single court, its studies laid the groundwork for creation of the Federal Circuit.[4]

Since my days at the Hruska Commission, I have organized and participated in many other studies of the federal appellate courts. I am also the author (with Dean Lauren Robel of the Indiana University School of Law) of FEDERAL COURTS: CASES AND MATERIALS ON JUDICIAL FEDERALISM AND THE LAWYERING PROCESS, which is scheduled for publication in the spring of 2005. Of course, in my testimony today I speak only for myself; I do not speak for any other person or institution.

## I. Background: *Holmes Group* in Context

In 1982, Congress created the Court of Appeals for the Federal Circuit. The Federal Circuit hears appeals from three national courts: the Court of Federal Claims, the Court of Appeals for Veterans Claims, and the Court of International Trade. The Federal Circuit also exercises appellate jurisdiction over certain cases in the federal district courts, specifically including cases arising under the patent laws. This latter jurisdiction is the focus of today's hearing.[5]

The patent jurisdiction of the Federal Circuit is delineated by two sections of Title 28 of the United States Code. Section 1295 provides that the Federal Circuit shall have exclusive jurisdiction over appeals from the district courts "if the

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[4] For a discussion of the origins of the Federal Circuit, including references to the Hruska Commission's hearings, see Arthur D. Hellman, Deciding Who Decides: Understanding the Realities of Judicial Reform, 15 Law & Social Inquiry 343, 355-59 (1990). The House and Senate Reports on the legislation creating the Federal Circuit relied heavily on the Hruska Commission Report.

[5] The appellate jurisdiction also extends to cases arising under the plant variety protection laws. Such cases are treated in the same way as patent cases. For convenience, I will generally omit further reference to plant variety protection.

jurisdiction of [the district court] was based, in whole or in part, on section 1338 of this title." Section 1338, in turn, vests original jurisdiction in the district courts "of any civil action arising under any Act of Congress relating to patents."[6]

In *Holmes Group*, the Supreme Court held that § 1338 must be interpreted in accordance with the "well-pleaded complaint" rule that has long governed the interpretation of 28 USC § 1331, the general "federal question" statute. Under this interpretation, a case does not "arise under" the patent laws when "the complaint does not allege a claim arising under federal patent law, but the answer contains a patent-law counterclaim."[7] This in turn means that when a claim for infringement or other claim under the patent laws is raised by the defendant rather than the plaintiff, the district court's judgment will be reviewed by the appropriate regional court of appeals, not by the Federal Circuit. In this respect *Holmes Group* repudiates the view of the law that prevailed in both the Federal Circuit and the regional circuits until 2002.[8]

The *Holmes Group* decision also affects the legal rules that determine whether a case falls within the exclusive jurisdiction of the federal courts. The second sentence of 28 USC § 1338(a) provides that the jurisdiction vested by the first sentence – the sentence quoted above – "shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases." If the first sentence

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[6] In fact, the statutory provisions are more complicated than the summary in the text indicates. Section 1338 also vests original jurisdiction in the district courts of civil actions arising under other intellectual property laws. But section 1295(a) goes on to provide that "a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims under section 1338(a)" shall be appealed to the regional court of appeals. This clause effectively limits the appellate jurisdiction of the Federal Circuit to cases arising under the patent (and plant variety protection) laws.

[7] *Holmes Group*, 535 U.S. at 827.

[8] See Ad Hoc Committee Report, supra note 1, at 715.

does not encompass cases in which a patent, plant variety, or copyright claim is raised in a responsive pleading, it would seem to follow that state courts are permitted to hear such cases. This, too, upsets the understanding of the law that prevailed before *Holmes Group*. As the Indiana Supreme Court said in *Green v. Hendrickson Publishers, Inc.*, 770 N.E.2d 784 (Ind. 2002):

> [Until] very recently the logic and language of a consistent body of federal decisions appeared to preclude a state court from entertaining a counterclaim under copyright law. [Detailed summary omitted.] All of the foregoing is, we think, trumped by the Supreme Court's ruling in *Holmes Group* … [We] think *Holmes* requires us to reject the federal authorities stating or implying that a state court may not entertain a counterclaim under patent or copyright law.

The *Holmes Group* decision thus raises two issues for Congress and, in the first instance, this Subcommittee. First, should Congress overrule *Holmes Group* to the extent that the decision allows the regional circuits to hear appeals in cases where patent rights are asserted as counterclaims? Second, should Congress overrule *Holmes Group* to the extent that it allows state courts to adjudicate counterclaims under the patent and copyright laws? I will discuss these questions in reverse order.

In the course of my statement, I will address the alternate solution proposed by an Ad Hoc Committee of the Federal Circuit Bar Association. Under the Ad Hoc Committee's proposed approach, the first sentence of 28 USC § 1338(a) would be amended by the addition of a single phrase: "involving any claim for relief." The statute would thus read:

> The district courts shall have original jurisdiction of any civil action *involving any claim for relief* arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(The proposed new language is italicized.) The Ad Hoc Committee offers this amendment as a solution to both of the problems raised by the *Holmes Group* decision.

Because the Supreme Court's holding in *Holmes Group* was predicated on its interpretation of the first sentence of § 1338(a), it might seem that the logical corrective is to amend that sentence, as the Ad Hoc Committee proposes to do. In my view, however, any alteration in the statutory language that defines the "original jurisdiction" of the district court runs the risk of unsettling the law in ways that no one can fully anticipate. It is preferable to address the problems directly, first by amending the provision that excludes state-court jurisdiction and, second, by amending the provision that defines the appellate jurisdiction of the Federal Circuit in patent cases.

## II. Allocation of Jurisdiction Between State and Federal Courts

At least since 1836, Congress has vested exclusive jurisdiction in the federal courts over all cases "arising under" the federal patent laws.[9] Exclusive jurisdiction over cases "arising under" the federal copyright laws has been a feature of the system since the Revised Statutes of 1873.[10]

The justifications for exclusive federal jurisdiction over patent and copyright cases are familiar. Concentrating these cases in the federal district courts promotes uniformity in the application of the law. It enables federal district judges "to develop the expertise necessary to decide the technical problems so frequently

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[9] Donald S. Chisum, The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation, 46 Wash. L. Rev. 633, 638 (1971).

[10] See Amy B. Cohen, "Arising Under" Jurisdiction and the Copyright Laws, 44 Hastings L.J. 337, 350-51 n. 62 (1992).

raised in patent cases."[11] Further, federal courts could be expected to have greater sympathy for the policies underlying the federal laws, especially when rights under federal law come into possible conflict with rights under state law.

All of these justifications are equally applicable whether a patent or copyright claim is asserted in the complaint or in a responsive pleading. For that reason, I doubt that there will be serious disagreement, as a matter of policy, with the proposition that patent and copyright counterclaims should not be litigated in state courts.

The simplest way of implementing that policy is to revise the second sentence of § 1338(a), which defines the exclusive jurisdiction of the federal courts. Before turning to that suggestion, I will address the proposal of the Ad Hoc Committee, which would amend the first sentence of § 1338(a). Two aspects of the proposal deserve attention.

**A. The Effect on Original District Court Jurisdiction**

One possible cause for concern is that altering the language of the "arising under" jurisdictional grant would invite litigants to reopen issues of interpretation that are now governed by the array of precedents construing the existing language. This would affect not only the scope of exclusivity, but also the availability of original and removal jurisdiction in the district courts over cases in which issues relating to patent, copyright, or trademark law are raised in the complaint. A good example is the oft-cited opinion of Judge Henry J. Friendly on copyright jurisdiction in *T.B. Harms Co. v. Eliscu,* 339 F.2d 823 (2d Cir. 1964).[12]

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[11] Chisum, supra note 9, at 636.

[12] The opinion begins:

> A layman would doubtless be surprised to learn that an action wherein the purported sole owner of a copyright alleged that persons claiming partial ownership had recorded their

It can be argued that reopening would not be warranted. The argument would rely heavily on the Supreme Court's decision in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988). In that case – a precursor to *Holmes Group* – the Court construed 28 USC § 1338(a) and held that jurisdiction under that statute extends "only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law."[13] Of particular importance here, the Court emphasized that the well-pleaded complaint rule "focuses on *claims*." The Court repeatedly addressed the question whether the *claims* in the complaint "ar[o]se under" federal patent law. Moreover, *Christianson* must be read in conjunction with the decision in the *Merrell Dow* case, where the Court indicated that the unit of analysis is the claim rather than the complaint as a whole.[14]

In this light, perhaps courts will be able to readily reject arguments that a grant of jurisdiction based on "any *claim* for relief arising under" specified laws calls for a different analysis of the complaint than a grant of jurisdiction over "any

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> claim in the Copyright Office and had warned his licensees against disregarding their interests was not one "arising under any Act of Congress relating to * * * copyrights" over which 28 U.S.C. § 1338 gives the federal courts exclusive jurisdiction. Yet precedents going back for more than a century teach that lesson and lead us to affirm Judge Weinfeld's dismissal of the complaint.

*Harms* was recently reaffirmed in *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 347-56 (2d Cir. 2000). The *Bassett* opinion contains a thorough discussion of lower-court decisions on copyright jurisdiction.

[13] Christianson, 486 U.S. at 808-09.

[14] The point was made most explicitly by the dissent. See *Merrell Dow Pharmaceuticals, Inc., v. Thompson*, 478 U.S. 804, 824 n.2 (1986) (Brennan, J., dissenting). The Court opinion addresses the point in id. at 817 n. 15. See Arthur D. Hellman & Lauren K. Robel, Federal Courts: Cases and Materials on Judicial Federalism and the Lawyering Process 721-22 (forthcoming 2005).

civil *action* arising under" those same laws. But this is by no means certain, especially in the realm of copyright. A comprehensive analysis of lower-court decisions on copyright jurisdiction under § 1338 found extensive confusion and inconsistency.[15] In that setting, it will not necessarily be easy for courts to reject assertions that the new statutory language calls for reconsideration of existing precedents.[16]

**B. The Effect on Supplemental Jurisdiction**

Another cause for concern is the effect of the proposed amendment on non-diverse state-law claims asserted in a pleading that brings a case within the scope of § 1338. (I use the term "non-diverse state-law claims" as a shorthand for claims grounded in state law between parties who are not of diverse citizenship.)

Today, the treatment of such claims is governed by 28 USC § 1367, the supplemental jurisdiction statute. Under § 1367(a), the district courts have supplemental jurisdiction over non-diverse state-law claims if they are "so related to claims in the action within [the] original jurisdiction that they form part of the same case or controversy under Article III." This language incorporates the "common nucleus of operative fact" test specified by the Supreme Court's decision in *United Mine Workers v. Gibbs*, 383 U.S. 715 (1966). Under § 1367(c), district courts may decline to exercise jurisdiction over supplemental claims if "principles of [judicial] economy, convenience, fairness, and comity" so suggest.[17]

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[15] Cohen, supra note 10, at 360-72.

[16] Moreover, it may be imprudent to place so much weight on *Christianson*. A leading scholar has said that "the incoherency of [the Supreme Court's] opinion in *Christianson* left a loose cannon careening unpredictably across the decks of the law of federal jurisdiction." John B. Oakley, Federal Jurisdiction and the Problem of the Litigative Unit: When Does What "Arise Under" Federal Law?, 76 Tex. L. Rev. 1829, 1830 (1998).

[17] See City of Chicago v. International College of Surgeons, 522 U.S. 156, 172-73 (1997). The quoted language is not in the statute; it is the Supreme Court's interpretation of § 1367(c).

Now consider the situation if the proposed amendment to § 1338 were adopted. The district court would have original jurisdiction over "*any civil action involving* any claim for relief arising under" the specified federal laws. (Emphasis added.) A plausible – perhaps a strong – argument can be made that the district court would now have *original* jurisdiction over *the entire action, including all state-law claims* contained in the pleading. This would have two consequences.

First, the statute would purport to vest original jurisdiction over non-diverse state-law claims even if they did not "form part of the same case or controversy under Article III." But the Supreme Court has said that "*Gibbs* delineated the constitutional limits of federal judicial power."[18] The statute would thus authorize an exercise of jurisdiction that the Constitution does not permit.

Second, with respect to non-diverse state-law claims that do "form part of the same case or controversy," the district court would lose its discretion to dismiss or remand. These claims would no longer come in as supplemental claims; rather, they would be part of the original jurisdiction. Section 1367(c) would have no application, and the district court would be required to adjudicate the state claims even if "principles of economy, convenience, fairness, and comity" suggested that the claims should be heard in the state court.

These are serious consequences, and they raise serious doubts about the soundness of the Ad Hoc Committee's proposed amendment to § 1338.

To be sure, courts may not adopt the interpretation just outlined.[19] After all, the present statute already vests "original jurisdiction" over the entire "civil

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[18] Owen Equipment & Erection Co. v. Kroger, 437 U.S. 365, 371 (1978).

[19] Ironically, *Holmes Group* might encourage adoption of this interpretation. The Court's decision manifests a preference for resolving statutory issues through close parsing of the statutory text rather than attempting to implement the Congressional purpose.

action." The difference, however, is that the amended statute, unlike the existing one, would distinguish between the "claim" and the "action," and would require only that a "claim" arise under patent law.

Beyond this, the analysis illustrates a broader point. Any alteration in the statutory language that defines the "original jurisdiction" of the district court – language that has remained unchanged for more than half a century – runs the risk of unsettling the law in ways that no one can fully anticipate.[20] Congress should not take that step if its purposes can be accomplished through legislation that is less likely to have ramifications outside the immediate context.

It is no answer to say that the Ad Hoc Committee's proposal has been available for two years and has withstood scrutiny. There is a vast difference between a committee proposal and a statute that courts must construe and apply to actual cases. Moreover, lawyers seeking to get cases into federal court (or keep them out) would certainly seek to exploit the abandonment of the "[l]inguistic consistency"[21] that now enables courts to apply § 1331 precedents to § 1338.

**C. Restoring Exclusivity**

If the preceding analysis is correct, the Ad Hoc Committee's proposed amendment to § 1338 may create more problems than it would solve. How, then, to assure that patent and copyright counterclaims will not be litigated in state courts? I suggest two possible approaches. One involves rewriting the second

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[20] For similar reasons, when the American Law Institute undertook its Federal Judicial Code Revision Project, it rejected the idea of a "direct revision of the various statutes that … grant original jurisdiction to the district courts *at the level of the action rather than the claim*." John B. Oakley, *Kroger* Redux, 51 Duke L. J. 663, 672 (2001) (emphasis added). The Reporter for the Project explained: "A subtle and complex set of secondary meanings now govern these statutes' application, and any attempt at comprehensive recodification of the district courts' original jurisdiction would proceed at great risk of creating unintended consequences." Id.

[21] See *Christianson*, 486 U.S. at 808.

sentence of § 1338(a); the other would make use of the device of removal. They are not mutually exclusive; on the contrary, they complement one another.

The simplest solution is to replace the second sentence of § 1338(a) with new language along these lines:

> No state court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights.

I think this is preferable to the Ad Hoc Committee's proposal because it directly addresses the underlying concern: "patent litigation should not be carried out in state courts."[22] Moreover, I note that the analysis of supplemental jurisdiction set forth above also applies to the current language of § 1338 that provides for exclusive federal jurisdiction. Thus, if the Ad Hoc Committee's amendment to § 1338(a) is adopted and the second sentence is left unchanged, the statute would appear to deny jurisdiction to state courts not only over the federal claims but also over the entire "action" in which they are asserted.

A second way of addressing the effect of *Holmes Group* on state-court litigation is to allow for removal to federal court based on a patent or copyright counterclaim. Surprisingly, the Ad Hoc Committee appears to reject this approach. It offers an amendment to 28 USC § 1441, the removal statute, that would explicitly *preclude* removal based on a patent or copyright counterclaim.[23]

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[22] Ad Hoc Committee Report, supra note 1, at 720.

[23] The Ad Hoc Committee expresses uncertainty as to whether its main proposal would expand removal. I think it probably would, but there is no need to pursue the point here. The Committee is also ambivalent about its support for an anti-removal amendment. But in the concluding paragraph of its discussion the Committee unequivocally "proposes adding a new subsection" to § 1441 that would prohibit removal based on a patent counterclaim. See id. at 728.

I believe that this course is unnecessarily timid. As the Ad Hoc committee acknowledges, if federal jurisdiction is exclusive and removal is prohibited, a patent (or copyright) claim brought in a state court as a counterclaim "would have to be dismissed."[24] The state-court defendant would then have to file a separate suit in federal court to assert his rights under the patent or copyright laws.[25] The parties would thus have to litigate two parallel suits even if the claims were closely related or even interdependent. This would also be the result if Congress adopted only the revision of the second sentence of § 1338(a) that I have proposed as an alternative.

I think it would be preferable to allow removal of the suit to federal district court based on the patent or copyright counterclaim and to provide for remand of the state claims if the state claims are totally outside the bounds of federal jurisdiction or if they are readily litigated in a separate suit. The dividing line is likely to correspond roughly to the distinction between compulsory and permissive counterclaims: if the non-patent or non-copyright claims would not constitute compulsory counterclaims to the claims within exclusive federal jurisdiction, they would ordinarily be remanded to state court. To this end, Chapter 89 of the Judicial Code might be amended by the addition of a new section 1454 along the following lines:

> (a) A civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights may be removed to the district court of the United States for the district and division embracing the place where such action is pending.

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[24] Ad Hoc Committee Report, supra note 1, at 728.

[25] To require dismissal followed by re-filing would be to reestablish for counterclaims the dysfunctional regime that existed for exclusive-jurisdiction claims in the complaint until 1986, when Congress enacted the provision that is now 28 USC § 1441(f).

> (b) The removal of an action under this section shall be made in accordance with section 1446 of this title, except that the action may be removed by any party.
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> (c) When a civil action is removed solely under this section, the district court–
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> (1) shall remand all claims that are not within the original or the supplemental jurisdiction of the district court under any Act of Congress; and
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> (2) may remand any claims within the jurisdiction conferred by section 1367 under the circumstances specified in section 1367(c).

The Ad Hoc Committee predicates its view on a concern that allowing removal of actions based on patent or copyright counterclaims would be to "the detriment of state court jurisdiction." No doubt this is true as a descriptive matter, but it is not a good reason for rejecting the proposal. As demonstrated most recently by the Class Action Fairness Act, Congress is quite willing – as it should be – to expand the availability of removal jurisdiction when doing so promotes important national interests. Here the national interest is strong. Moreover, the effect on state courts is likely to be minuscule in comparison to the effect of the Class Action Fairness Act.

**D. Conclusion**

Revising the second sentence of § 1338(a) in the manner suggested above would accomplish the Ad Hoc Committee's goal: it would assure that patent and copyright litigation will "not be carried out in state courts." It would do this directly, without the risk of upsetting other aspects of the jurisdictional arrangements that depend on the existing definition of "original jurisdiction." If a patent or copyright counterclaim is asserted in state court in spite of § 1338, the removal statute proposed here would give the district court maximum flexibility to

sort out the federal and state claims, so that each is litigated in the most appropriate forum.

## III. Patent Counterclaims and Appellate Review

The principal goal of the Ad Hoc Committee's proposed legislation is to overrule *Holmes Group* and ensure that the Federal Circuit will have appellate jurisdiction over all cases in which "a claim for relief arising under the patent laws" is raised in a responsive pleading (such as a counterclaim) but not in the complaint. I agree with that policy goal; as with exclusivity, the desirability of centralized review does not depend on the pleading in which a patent claim is asserted.[26] But for the reasons given in Part II, the Ad Hoc Committee's proposed amendment to § 1338 is a problematic means of accomplishing that goal. I suggest, instead, that the goal be pursued more directly, by amending 28 USC § 1295(a). The statute would read in relevant part:

> (a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—
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> (1) of an appeal from a final decision of a district court of the United States [or other district courts] in any civil action in which a party has asserted a claim for relief arising under any Act of Congress relating to patents or plant variety protection.

This amendment has several advantages over the Ad Hoc Committee proposal. It addresses the policy goal directly rather than indirectly. It creates no risk of unsettling existing law on district court jurisdiction or of curtailing district

[26] As the Ad Hoc Committee points out, the Holmes Group decision did not rest on policy considerations; on the contrary, the Court explicitly disclaimed the task of determining "what would further Congress's goal of ensuring patent-law uniformity." Holmes Group, 435 U.S. at 833. I note, however, that the commentators are not unanimous on the policy question. For a contrary view, see Note, Vornado Hits the Midwest: Federal Circuit Jurisdiction in Patent and Antitrust Cases after Holmes v. Vornado, 82 Tex. L. Rev. 1091, 1124-28 (2004).

court discretion over supplemental claims. It avoids the circumlocution of current § 1295(a), which vests broad jurisdiction in its first clause, only to take some of it away in the second part of the sentence.[27]

The Ad Hoc Committee considered a very similar proposal, but rejected it.[28] The Committee gave two reasons. First, it said that amending § 1295(a)(1) "would not address *Green* [the Indiana case] to ensure federal jurisdiction over patent law counterclaims." True, but that can be done through the amendments suggested above – revising the second sentence of § 1338(a) and allowing removal based on patent and copyright counterclaims.

Second, the Committee said that "amending § 1295 to [supersede] *Holmes Group* would require a restructuring of the Federal Circuit's jurisdiction," and that it would not be possible "to restructure the foundation of the court's jurisdiction in this way without extensive debate." I do not find this persuasive. To begin with, the two approaches end up in the same place as far as the Federal Circuit's jurisdiction is concerned. I doubt that the scope of the debate will depend on which approach is taken.[29]

More important, in order to avoid a restructuring of "the foundation of the [Federal Circuit's] jurisdiction," the Ad Hoc Committee proposes amending a foundational statute that governs district court jurisdiction. It seems to me that the

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[27] See note 6 supra.

[28] Under the Ad Hoc Committee's version, the Federal Circuit would be given exclusive jurisdiction "of an appeal from a final decision of a district court ... in any civil action asserting a claim under any Act of Congress relating to patents or plant variety protection."

[29] As is true under current law, the Federal Circuit would have exclusive appellate jurisdiction under my proposal even if all patent issues have been dropped by the time judgment is entered. See discussion infra Part IV(A). Similarly, the Federal Circuit would continue to have exclusive jurisdiction over cases in which patent claims were first asserted in an amended pleading. See Ad Hoc Committee Report, supra note 1, at 723-24.

latter cuts far more deeply into the fabric of existing jurisdictional arrangements. Section 1338 is much the older of the two provisions. Moreover, as shown above, the risk of inadvertently affecting other aspects of federal jurisdiction and practice is much greater.

## IV. The State of Patent Appeals

The amendments proposed in the preceding sections would fix the problems created by the *Holmes Group* decision. But at an oversight hearing it is appropriate to look beyond the immediate problems and to consider the broader context of appellate review in cases involving patent issues. I emphasize at the outset that none of the matters discussed here suggest delay in pursuing a *Holmes Group* "fix" if the Subcommittee agrees that the legislation is desirable.

### A. The Broad Reach of Federal Circuit Jurisdiction

Even apart from cases with patent counterclaims, the jurisdiction of the Federal Circuit extends well beyond the paradigm case in which the losing party appeals from a district court judgment that adjudicated issues of validity or infringement raised in the complaint. Two aspects of the jurisdictional framework deserve mention.

First, the Federal Circuit frequently hears appeals in which no claim under the patent laws is at issue. This comes about because the jurisdiction of the Federal Circuit is fixed by reference to the jurisdiction of the district court. That jurisdiction in turn is determined by the case as filed. Thus, as long as a patent claim was part of the original case, the Federal Circuit will hear the appeal even if all patent claims have been dropped by the time judgment is entered.[30]

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[30] See, e.g., Independent Ink, Inc. v. Illinois Tool Works, Inc., 396 F.3d 1342, 1345-46 (Fed. Cir. 2005); Zenith Electronics Corp. v. Exzec, Inc., 182 F.3d 1340, 1346 (Fed. Cir. 1999); see also Ad Hoc Committee Report, supra note 1, at 724-25. There is an exception for cases in which

This would continue to be the rule if Congress were to adopt the revision of § 1295(a) proposed above. The Federal Circuit would have exclusive appellate jurisdiction over "any civil action in which a party *has asserted"* a claim under the patent laws. The assertion of the patent claim would assure Federal Circuit jurisdiction whether or not the claim was still alive at the time of the appeal.

Second, the Federal Circuit has interpreted § 1338(a) with a gloss drawn from the line of cases associated with the Supreme Court decision in *Smith v. Kansas City Title Co.*, 255 U.S. 180 (1921). "Smith jurisdiction" is a shorthand for the proposition that a case arises under federal law for purposes of § 1331 when a well-pleaded complaint asserts a state-created cause of action that requires resolution of a substantial question of federal law.[31]

In the appellate context, the Smith doctrine has been construed to vest jurisdiction in the Federal Circuit in two distinct kinds of cases. First, the Federal Circuit has exercised appellate jurisdiction in cases where the complaint asserted *state-law* claims that require interpretation of the patent laws.[32] Second, the Federal Circuit has reviewed cases in which claims under other federal statutes require interpretation of the patent laws.[33]

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the patent claims are dismissed without prejudice under Rule 41(b). See, e.g., Nilssen v. Motorola, Inc., 203 F.3d 782 (Fed. Cir. 2000).

[31] See Note, Mr. Smith Goes to Federal Court: Federal Question Jurisdiction Over State Law Claims Post-Merrell Dow, 115 Harv. L. Rev. 2272 (2002). On April 18 the Supreme Court will hear oral argument in a case that may determine the validity and scope of Smith jurisdiction. See Grable & Sons Metal Products, Inc. v. Darue Eng'g & Mfg, 377 F.3d 592, 595-96 (6th Cir. 2004), cert. granted in part, 125 S. Ct. 824 (2005).

[32] See, e.g., U.S. Valves, Inc. v. Dray, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (breach of contract).

[33] Star Fruits S.N.C. v. United States, 393 F.3d 1277, 1281 (Fed. Cir. 2005) (Administrative Procedure Act).

Under the Supreme Court's analysis in *Christianson*, these doctrines too would continue to be applicable if Congress enacts the revision of § 1295(a) that I have proposed.

**B. Broader Application of the Federal Circuit's Own Law**

Even under the narrowest interpretation of its jurisdictional statute, the Federal Circuit would be called upon to decide issues that do not involve "the substantive law of patents."[34] The question inevitably arises: what law should the Federal Circuit apply to those issues? Two years after its creation, the court gave a comprehensive answer in its en banc decision in *Atari, Inc., v. JS& A Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) (en banc). Notably, the opinion of the court was written by Chief Judge Howard T. Markey, who as chief judge of the Court of Customs and Patent Appeals had played a major role in developing the record that led to creation of the Federal Circuit. And the opinion was joined in full by Judge Giles Rich, who as a patent lawyer had drafted much of the Patent Act of 1952. The opinion thus has a special claim to authority.

In answering the choice-of-law question, Chief Judge Markey began by examining the legislative history of the Federal Circuit as manifested in the House and Senate Committee Reports. Congress, he found, expected "that this court would not appropriate or usurp for itself a broad guiding role for the district courts beyond its mandate to contribute to uniformity of the substantive law of patents, plant variety protection, and the Little Tucker Act."[35] After reviewing prior panel decisions addressing the problem, Judge Markey concluded that to avoid "self-appropriation," the Federal Circuit would be guided by the law of the appropriate

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[34] See text at note 35 infra.

[35] *Atari*, 747 F.2d at 1438.

regional circuit "in *all but the substantive law fields assigned exclusively to this court.*" (Emphasis added.)

That is not the position that the court takes today. Others have described the evolution of the court's jurisprudence on choice of law, and I will not retrace that history here.[36] It is sufficient to mention two landmark cases. In *Nobelpharma*, the Federal Circuit explicitly overruled *Atari* on this point and held that henceforth it would apply Federal Circuit law, not regional circuit law, to "all antitrust claims premised on the bringing of a patent infringement suit."[37] A year later, in *Midwest Industries*, the court overruled another cluster of precedents and held that "we will apply Federal Circuit law in determining whether patent law conflicts with other federal statutes or preempts state law causes of action."[38]

I do not want to overstate the extent to which the Federal Circuit now applies its own law. For example, in a case that will be heard on certiorari by the Supreme Court, the Federal Circuit noted that it applies the law of the regional circuit "to the elements of antitrust claims that are not unique to patent law."[39] Nevertheless, it is fair to say that the Federal Circuit has moved a long way in the direction of the "self-appropriation" that Chief Judge Markey warned against.

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[36] See, e.g., James B. Gambrell, The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit, 9 Tex. Intellectual Property L.J. 137, 140-48 (2001); Ronald S. Katz & Adam J. Safer, Should One Patent Court Be Making Antitrust Law for the Whole Country?, 69 Antitrust L.J. 687, 695-700 (2001); Scott A. Stempel & John F. Terzaken III, Casting a Long IP Shadow over Antitrust Jurisprudence: The Federal Circuit's Expanding Jurisdictional Reach, 69 Antitrust L.J. 711, 725-31 (2001).

[37] Nobelpharma AB v. Implant Innovations, Inc., 141 F.3d 1059, 1068 (Fed. Cir. 1998) (en banc in relevant part).

[38] Midwest Industries, Inc. v. Karavan Trailers, Inc., 175 F.3d 1356, 1357 (Fed. Cir. 1999) (en banc in relevant part).

[39] Unitherm Food Systems, Inc. v. Swift Eckrich, Inc., 375 F.3d 1341, 1349 (Fed. Cir. 2004), cert. granted in part, -- S. Ct. – (U.S. Feb. 28, 2005).

Some commentators have expressed concern about this development. Of particular interest is a recent analysis by Professor James B. Gambrell. Mr. Gambrell was one of the two consultants who prepared the report on patent appeals for the Hruska Commission – a report that Congress in turn relied on for its conclusions.[40] He strongly advocated creation of the Federal Circuit. But in his recent article he sharply criticized the Federal Circuit for "overreaching its statutory mandate on choice of law questions" and "squeez[ing] out the regional circuits' involvement in constructing antitrust principles that should properly circumscribe the bundle of rights the intellectual property laws protect."[41]

**C. The Value of Percolation**

Justice John Paul Stevens, in his concurring opinion in *Holmes Group*, suggested that there might actually be a benefit from allowing some patent cases to be heard by the regional courts of appeals.[42] Although he did not use the word, he essentially argued for the value of what has been called "percolation." As the Hruska Commission put it, percolation is the process by which "successive considerations by several courts, each reevaluating and building upon the preceding decisions, [improve] the quality of adjudication."[43]

With respect to patent appeals, however, Congress concluded in 1982 that the values of uniformity and predictability outweigh any benefit from percolation.

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[40] See H. Rep. 97-312 at 21 (1981). The consultants' report was co-authored by Donald R. Dunner, Esq.

[41] Gambrell, supra note 36, at 147, 156-57.

[42] He said: "An occasional conflict in decisions may be useful in identifying questions that merit this Court's attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias." 535 U.S. at 839 (Stevens, J., concurring).

[43] Commission on Revision of the Federal Court Appellate System, Structure and Internal Procedures: Recommendations for Change, 67 F.R.D. 195, 219 (1975).

I agree with the Ad Hoc Committee that there is no reason to reopen that determination today. But as Chief Judge Markey implicitly recognized in his opinion in *Atari*, the Congressional judgment does not extend "beyond [the Federal Circuit's] mandate to contribute to the substantive law of patents."[44] And I believe that there are particularly strong reasons for valuing percolation on the non-patent issues that typically arise in cases with patent claims.

First, many of the issues involve new technologies and new ways of carrying out business. These innovations often put pressure on rules laid down in earlier times, so that the utility of having "successive considerations by several courts, each reevaluating and building upon the preceding decisions," is particularly great.

Second, Congress – often under the leadership of this Subcommittee – has enacted (and will continue to enact) new laws that require working-out in a variety of contexts. The often-difficult issues of statutory construction and application raised by the new laws will benefit from consideration by multiple courts.

Finally, because of the high cost, public exposure, and other burdens of litigation, many suits will be resolved by settlement before the case reaches the stage of appellate review.[45] While settlements are widely applauded as a general matter, the effect is to reduce the number of opportunities for any appellate court to consider a particular issue.

**D. Perceptions of Conflict in Panel Decisions**

In 1998, the Federal Judicial Center conducted a survey of appellate counsel for the Commission on Structural Alternatives for the Federal Courts of Appeals (White Commission). One of the questions was: "For you or your clients, how big

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[44] *Atari*, 747 F.2d at 1438.

[45] See generally Marc Galanter, The Vanishing Trial: An Examination of Trials and Related Matters in Federal and State Courts, 1 J. Empirical Leg. Studies 459 (2004).

a problem is the difficulty of discerning circuit law due to conflicting precedents?" The highest proportion of lawyers who viewed the problem as "large" or "grave" came from the Federal Circuit.[46]

This perception finds support in an extensive body of commentary, much of it authored by practicing lawyers. For example, in 2001 the Federal Circuit Bar Journal published a compilation under the title "Conflicts in Federal Circuit Patent Law Decisions."[47] The introduction explains:

> While the very purpose of creating the Federal Circuit was to bring uniformity to the judicial interpretation of patent law, these conflicts among panel decisions tend to defeat that purpose and, in at least some substantive areas, return the law to the unpredictability that existed when appeals were directed to the regional circuits.

The introduction is followed by analyses of a dozen separate issues. The compilation extends over more than 50 pages.

I have not independently reviewed the cases discussed in these commentaries, and I am certainly not endorsing any of the authors' conclusions. Moreover, it is quite possible – indeed, likely – that some of the conflicts identified by the writers have been resolved in the years since the articles were published. Nevertheless, the extent of the evidence and the depth of the critiques are quite striking, especially to anyone who has followed the debate over dividing the Ninth Circuit. For more than 30 years, critics have been asserting that the Ninth Circuit Court of Appeals has failed to maintain consistency in its panel decisions. In all that time, no one has come forward with even a small fraction of

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[46] Commission on Structural Alternatives for the Federal Courts of Appeals, Working Papers 86, Item 20g.

[47] 11 Fed. Cir. B. J. 723 (2001).

the detailed evidence of intracircuit conflict that can readily be found in writings about the Federal Circuit.

**E. Implications for Congressional Action**

What are the implications of the considerations outlined here for the possibility of legislation to improve "the state of patent appeals"? To begin with basics: I see nothing in these developments that calls for rethinking of the 1982 legislation that centralized patent appeals in the Federal Circuit. No system is perfect, and there is no reason to believe that we would be better off with a return to the arrangement that existed before 1982.

Second, I see nothing that calls into question the suggestions made in Part II and III of this statement for a "Holmes Group fix."

At the same time, I do think that some fine-tuning of the system of appellate review may be warranted. In particular, I believe that Congress and this Subcommittee should consider whether the adjudicative authority of the Federal Circuit should conform more closely to the arrangements that Congress contemplated when it established the court: if the "gravamen" of the case is patent law, the appeal should be heard by the Federal Circuit; if the "gravamen" is something else, the appeal should be heard by the regional court of appeals.[48]

One way to pursue this goal would be by limiting the grant of appellate jurisdiction in 28 USC § 1295(a). However, I see no need to take such a drastic step. Rather, I suggest that the Federal Circuit be given limited authority under 28

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[48] This language is taken from the Senate Report on the legislation creating the Federal Circuit: "[M]ere joinder of a patent claim in a case whose gravamen is antitrust should not be permitted to avail a plaintiff of the jurisdiction of the Federal Circuit in avoidance of the traditional jurisdiction and governing legal interpretations of a regional court of appeals." S. Rep. 97-275 at 20 (1981).

USC § 1631 to transfer appeals that do not implicate the court's function of maintaining uniformity in the patent laws.

There are basically two approaches that might be taken. The first would be to give the Federal Circuit discretion to transfer an appeal to the appropriate regional court of appeals if, for example, non-patent claims "substantially predominate" over the patent claims.[49] This might be an effective means of tailoring the Federal Circuit's actual adjudicative authority to the purpose underlying Congress's creation of the court. The drawback is that it would require a judgment call at a threshold stage of the appeal. That is probably a sufficient reason to reject it, although there may be ways of drafting such a provision that would narrow the range of discretion.

The other approach would be to authorize (or perhaps require) transfer to the appropriate regional court of appeals if the appeal presents *no* issue of patent law. The rule would not be jurisdictional, and no litigant would have a right to be heard in one court rather than another. But a transfer provision would provide a something of a counterweight to current practices that have the effect of reducing "the number of [appellate] viewpoints that balance intellectual property law and antitrust law."[50]

## V. Conclusion

Shortly after the Federal Circuit was created, Judge Richard A. Posner observed that the realm of patent law "is riven by a deep cleavage, paralleling the cleavages in antitrust law, between those who believe that patent protection should be construed generously to create additional incentives to technological progress

[49] This language is taken from 28 USC § 1367(c), discussed in Part II.

[50] Katz & Safer, supra note 36, at 688.

and those who believe that patent protection should be narrowly construed to accommodate the procompetitive policies of the antitrust laws."[51] Today's hearing does not directly concern the policy disagreement that Judge Posner was describing. Rather, the focus is on allocation of adjudicative authority: what arrangements will best promote sound decision-making and instill confidence that both of the competing perspectives identified by Judge Posner will be given their due?

There seems to be broad agreement that the *Holmes Group* decision is a step in the wrong direction. Because the Court's holding was predicated on its interpretation of the first sentence of 28 USC § 1338(a), it might seem that the logical corrective is to amend that sentence. But for the reasons given in Part II, I believe that the seemingly logical response is not the optimal one. The preferable approach is to rewrite the second sentence of §1338(a) and the language of § 1295(a) to directly address the problems created by the decision. Beyond this, the Subcommittee may wish to consider some kind of appellate transfer provision that would increase the number of viewpoints are brought to bear on the non-patent issues that typically arise in cases with patent claims.

[51] Richard A. Posner, The Federal Courts: Crisis and Reform 152-53 (1985).